

Message Text

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73

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 M-02 A-01 ABF-01 DODE-00

PA-04 USIA-15 PRS-01 DRC-01 /125 W

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R 012112Z AUG 74

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 9644

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY LIMA

AMEMBASSY LA PAZ

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EO 11652:N/A

TAGS: EFIN, CI

SUBJECT: BLACK MARKET FOR FOREIGN EXCHANGE

REF: A) SANTIAGO A-116; B) SANTIAGO A-104

1. AFTER TWO MONTH HIATUS, SMALL BLACK MARKET FOR DOLLAR REAPPEARED IN EARLY JULY AND BROADENED BY MONTH'S END. BLACK ESCUDO RATE FLUCTUATED BETWEEN 1050-1100 ESCUDOS PER DOLLAR WHEN LEGAL BROKERS RATE WAS 910 PER DOLLAR, AND NOW APPEARS TO BE RISING TO ADJUST FOR JULY 31 ESCUDO DEVALUATION TO 950 (BROKERS RATE). EMBASSY SOURCE REPORTS MODEST TRADING TAKING PLACE WITH MODERATELY INCREASING ESCUDO AVAILABILITIES.

2. EMBASSY'S COMMERCIAL CONTACTS REPORT SQUEEZE ON WORKING CAPITAL IS EASING AS CONSUMPTION GROWING AGAIN. FURTHERMORE, CONTINUING MINI-DEVALUATIONS OF THE ESCUDO ARE RESTORING LUSTER TO DOLLAR AS HIGHLY LIQUID STORE OF VALUE.

3. COMMENT: QUESTION ARISES AS TO WHY BLACK MARKET DOLLARS
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ARE ATTRACTIVE WHEN READJUSTABLE SAVINGS ACCOUNTS PAY REAL

RATE OF INTEREST AND OTHER INTEREST BEARING INSTRUMENTS SUCH AS BONDS AND PAGARES (REF B) ARE NOW COMING ON MARKET. WITHOUT DIRECT KNOWLEDGE AS TO MOTIVATION, WE SUGGEST FOLLOWING FACTORS AS INFLUENTIAL:

A) SOME OF THE CAPITAL MARKET INSTRUMENTS ARE NEW AND UNFAMILIAR TO CHILEANS.

B) NO INSTRUMENT IS AS LIQUID AS THE DOLLAR.

C) DOLLAR AT BROKERS RATE HAS INCREASED IN VALUE ALMOST 32 PERCENT VIS A VIS THE ESCUDO SINCE MAY 27. PSYCHOLOGICALLY, PEOPLE MAY BE FOCUSING ON THIS RECENT RAPID INCREASE WHILE OVERLOOKING FACT THAT BROKERS DOLLAR DEVALUED TO UNREALISTICALLY LOW LEVEL DURING PRECEDING EIGHT MONTHS.

D) ANYONE WISHING TO TRAVEL HAS OBVIOUS NEED OF FOREIGN EXCHANGE. TRAVELERS CAN PURCHASE FOREIGN EXCHANGE FROM BANKS, BUT LIMIT IS NOW \$720 PER YEAR (REF A) AND OFFICIAL PURCHASES SUBJECT TO TAX AND COMMISSION ABOUT 15 PERCENT ABOVE OFFICIAL RATE.

E) BANK ACCOUNTS AND OFFICIAL TRANSACTIONS ARE POTENTIALLY SUBJECT TO PERUSAL BY TAX AND PRICE CONTROL AUTHORITY (DIRINCO). FREE PRICE SYSTEM HAS RAISED NUMEROUS COMPLAINTS OF PRICE GOUGING WHICH MAY MAKE BUSINESSMEN RELUCTANT TO HOLD LARGE BALANCES IN SUCH VISIBLE FORM.

4. DURING THE ALLENDE PERIOD A MAJOR INCENTIVE TO HOLD DOLLARS WAS LACK OF CONFIDENCE IN GOVERNMENT AND ITS ECONOMIC POLICIES. WE HAVE SEEN NO RPT NO EVIDENCE THAT THIS IS FACTOR IS PRESENT REAPPEARANCE OF BLACK CURRENCY MARKET. POPPER

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